

FOREIGN TRADE OF KOSOVO AND IMPACT OF FISCAL POLICY

Agim Berisha, PHD candidate

College of Business, Pristine, Kosovo

Abstract

Negative trading balance is only one of the economical problems by which Kosovo is facing. Kosovo institutions are aware that change of this reality requires a comprehensive economical and political approach and reforms in a manner to change operational environment, with a view to improve competitive position of Kosovo in global market. Kosovo is public-spirited for trade liberalization. The participation in regional and worldwide mechanisms for facilitation of trade was one of the main objectives of the policies of the Kosovo's institutions. Expansion of the trade in Kosovo through market liberalization must take into consideration three aspects: a) Rationalization and substitution of import, b) Facilitation of trade and c) Export promotion. Trade is a multidimensional concept which has influence almost in all social and economical fields of life. However, the international trade of Kosovo is dominated by imports, whereas the export is in the lowest level, resulting in this way in a high commercial deficit .So, the Kosovo since the after conflict period is very dependant by the import and trends indicate that in a short time period is very difficult to be expected considerable changes.

Keywords: Foreign trade, Fiscal policy, Kosovo

Kosovo's foreign policy

Kosovo with an open economy in international trade is dominated by import and low level of export, resulting in this way with high commercial deficit. Aside from other macro-economical indicators also the international exchange formulates the level of the economical development of respective country expressed through the structure and value of imported and exported goods.

Characteristics of International trade Kosovo's trade partners

The Kosovo's economy has had a relatively low development since 1999. Even that, during this period have been undertaken important macroeconomic steps for regeneration of Kosovo's economy, still there are many challenges. One of the indicators is a high negative and constant commercial balance since 1999. Since the post conflict period the low level of economical development of Kosovo that in economical relations to dominate the import of goods and services which evidently is higher than export and impacts in a high deficit of payment balance. Kosovo in a post conflict period has commercial relations with different countries in a region and worldwide. Regarding to the commercial relations with other countries, Kosovo since the post conflict period is very devoted for trade liberalization. However, economical exchange with other countries for Kosovo's economy since the post conflict period is reflected as unhandy. This is for the fact that the low level of Kosovo's economical development is reflected that in economical relations dominate import of goods and services which evidently is higher than export and in this way impacts in a higher deficit of commercial balance. This can be concluded through the reflection of international exchange of Kosovo with other countries as it is shown in the table below. The table below represents Kosovo's economical relations with other countries in a period of time from: 2001 – 2010.

Table 1: The commercial balance of Kosovo in a period of 2001 – 2010

Years	Export	Import	Commercial balance	The coverage of import with export
2001	10,559.00	684,500.00	-673,941.00	1.5
2002	27,599.00	854,754.00	-827,155.00	3.2
2003	35,621.00	973,265.00	-937,644.00	3.7
2004	56,567.00	1,063,374.00	-1,006,807.00	5.3
2005	56,283.00	1,157,492.00	-1,101,209.00	4.9
2006	110,774.00	1,305,879.00	-1,195,105.00	8.5
2007	165,112.00	1,576,186.00	-1,411,074.00	10.5
2008	198,463.00	1,928,236.00	-1,729,773.00	10.3

2009	165,328.00	1,935,541.00	-1,770,213.00	8.5
2010	294,031.00	2,144,934.00	-1,850,903.00	13.7

Source Statistical Office of Kosovo, the statistics of international trade 2011, Pristine, march 2011, page 8.

From the data in the table above we can conclude that export during the post conflict period has indicated an impressive growth over 60% average annually from the period 2001–2010, in the other hand for the same period imports have been increased considerably from 15% average, annually. Even that the international trade indicators for Kosovo's economy were disfavoured. During this period exports were increased from 10,559,000 € which were in 2001, whereas the imports were 294,031.00 € in 2010, whereas the imports are increased from 684,500,000 € which were 2001 in 2,144,934.00 € in 2010. The trade balance during this period is increased from 673,941.00 € which were 2001, in 1,850,903.00 € in 2010 or for 2.74 times. Even if the coverage of import by export is still very low, it has been sustainably since 2001, achieving in this way two digit indicators in 2007, in 10.5% and in 2010 in 13.7%. During this period interrelation export-import was increased from 1:6, 5 which was in 2001 in 1:9, 7 in 2008. Such interrelations between import and export leads us come to a conclusion that in Kosovo most of the goods for consume by the population are imported. This leads us into two conclusions: firstly: there is a low level of economical development, and secondly: Through import people who are in charge to draft the development policy wanted to fill the budget of Kosovo. Whereas among the main partners of Kosovo in international trade are considered EU countries and countries in the region.¹

Table 2: Export and Import with EU and countries in region (in thousands of Euros)

Years	Export		Import	
	Region	EU	Region	EU
2004	23,510	16,248	368,701	378,144
2005	26,027	17,285	440,334	431,977
2006	51,745	28,602	536,254	391,335

¹ Kosovo' commercial policy, Ministry of Trade and Industry, Pristine, August 2009

2007	67,500	69,370	579,574	572,904
2008	61,534	93,974	717,640	701,982
2009	53,482	71,275	692,465	755,004
2010	70,933	131,460	799,015	821,233

Source: Institute for advanced studies (GAP), Pristine, March 2011

Until 2007 the Kosovo products have been exported mainly ion the countries in region whereas after 2007 by measures imposed for blockade of Kosovo's export by Serbia and Bosnia and by the signature of the Agreement on Autonomous Trade Measures between Kosovo and EU the biggest exporting market for Kosovo is EU. Kosovo started to build other commercial relations with other countries through the bilateral agreements for free trade, at the beginning with Albania (2003), Macedonia (2005) ,Croatia (2006),Bosnia (2006) and with other countries. These bilateral agreements were advanced and unified within CEFTA because all these countries were become a part of this multilateral agreement. Kosovo joined CEFTA in the period at the time where there was a high trade deficit and undeveloped economy. The membership in CEFTA was seen as the best way to come out from this crisis, which was believed that by integration in one free market, the foreign investors shall bring their investments in Kosovo, local producers will be able to export and Kosovo will make a further step towards entry into EU. However, Kosovo as a member of CEFTA, since the July 2007 did not made to have expected benefits from this multilateral agreement of free trade with countries in region. If we do analyse the values of export with countries within CEFTA could be seen the export after blockade from Serbia and Bosnia come down, whereas after the finding of the alternative ways for export with other countries we do see the positive trends.

Table 3: Export in countries of CEFTA (in thousands of Euros).

			Export			
Country	2005	2006	2007	2008	2009	2010
Bosnia and Herzegovina	3,399	5,126	5,287	5,919	1,206	1,877

Montenegro	622	2,207	2,913	3,770	3,084	3,917
Serbia	6,265	20,910	19,280	9,893	3,504	3,846
Macedonia	9,619	9,734	17,384	20,046	17,355	26,296
Albania	5,240	12,645	20,799	21,113	26,182	32,288
Croatia	882	1,123	1,837	793	2,151	2,709
Moldova	n/a	n/a	n/a	n/a	n/a	n/a
Total	26,027	51,745	67,500	61,534	53,482	70,933

Source: Institute for advanced studies (GAP), Pristine, March 2011

From the table above we can see that in 2007, the export had positive trend with countries in region, whereas after the membership in CEFTA we can see a negative trend of Kosovo's export, while in 2010 we can see positive trends of the export. Therefore there was a drop-of for 9.1% in 2008 and 2009 which was as a result of blockade of Kosovo's products from Serbian and Bosnian authorities. In 2010 there was a small increase of exports with Albania and Macedonia.²

Trade liberalization

Since the post conflict period, Kosovo is very public spirited for trade liberalization. Institutions of Kosovo were part of the processes and initiatives for liberalization of trade in the region and in particular for those initiated by Stability Pact. Even that Kosovo is not equal in this mechanism, Kosovo has made clear its devotion to respect the obligations from the Memorandum of Understanding for facilitation and liberalization of trade signed 2001 by South East European Countries under monitoring of Stability Pact.

Kosovo at the beginning signed the free trade agreement with Albania and then with Macedonia, Bosnia and Herzegovina and Croatia. The whole process of negotiations was completed by extension of the CEFTA Agreement with South East Europe countries in 2006, in this way changing the bilateral agreements in one single free trade agreement (FTA). So to Kosovo was granted a full membership. However, Kosovo as a part of CEFTA Agreement has given certain responsibilities; there are many positive aspects of this process. Firstly, one of these benefits free movements of goods and services .The objective of CEFTA is to establish rules and mechanisms which shall be administered the international trade in the region. The gained

² Statistics of international commerce, March 2011, Kosovo Statistic Office, Mars 2011

experience in the trade with the countries in region shall make Kosovo's products more competitive for EU trade and in wide. Another CEFTA objective is to establish an attractive regional market which will establish new opportunities for local businesses or foreign investors. In particular, this dimension is important for Kosovo because direct foreign investments are of capital importance to improve competitive position of Kosovo's industry in international markets. However Kosovo's experience in CEFTA was not very positive so far due to the permanent political obstacles in the region. The CEFTA agreement was signed by UNMIK on the behalf of Kosovo, Serbia and Bosnia do not recognize institutions of the Republic of Kosovo and documentation signed by them. Aside from this matter there is a general opinion within some Kosovo's institutions and within business community that CEFTA shall not produce expected benefits to Kosovo.

Identification of the barriers in international trade

There are many reasons for poor performance of export sector in Kosovo which are of different nature as are: political, historical and economical.³ The lack of such poor performance of the export sector are connected with each other, so for a long period of time was undefined political status which was an obstacle for Kosovo's development. In this context there some factors which should be specified and have had impact in development of business sector and, in particular in export sector. The companies and industries in Kosovo after the conflict were in a total collapse as a result of ruin and burglary. The delays and other complications in the process of privatisation have made them more difficult to be regenerated. Unsatisfactory level of the direct foreign investments is considered as very important factor in many countries in transition to bring to life the economy and in particular their export sector. Informal economy is also another dimension, then the lack in the electrical energy supply, limited road infrastructure etc. ⁴ Such problems which in essence have to do with specific reality of post conflict Kosovo in constellation with institutions and politics in development have delayed the development of private sector which shall bear the main burden for export. Currently the private sector is almost made by small and medium businesses (SMB) which do not show much effectiveness. Almost total nonentity of large companies in the structure of the companies in Kosovo has had a direct impact in the low level of

³ Kosovo's trade policy, Ministry of Trade and Industry, Prishtinë, August 2009, page 20

⁴ Based on the data the informal economy in Kosovo is calculated according to some evaluations 30% of NDP in Kosovo or 700 million € per year

the export, because in the majority of the countries they are enterprises that are very active in exporting activities as a result of their potential and their resources. In the other hand, the deficit of large companies specifically has influenced in development of SMB, because large companies are those which results a large percentage of the demand for products and services of SMB. This fact has influenced a major part of SMB not to pass their dynamic life cycle of development and growth into large companies which afterwards shall become an additional and potential source of export.

Potential markets for Kosovo's products

According to the median framework of expenses (KASH) 2010 – 2012 for the period provided Kosovo's exports are expected to be increased approximately 50% until 2012, comparing with 2008 (it is projected a progressive increase over 10% per year).

Nevertheless in KASH is not said explicitly which products or industry shall bear the main burden of this additional export and in which markets these exports can be placed. As well in the trade policy of Kosovo 2004, extracting industries and energy sector remain evidently with priority. Kosovo has an evident advantage in production of electrical energy, having in regard the large demand for energy in the region and in global as well as the low cost of the energy which can be produced in Kosovo, based on lignite. Also to agriculture must be paid attention having in regard the land quality and the percentage of the work force available in Kosovo. However this sector has had difficulties having in regard subvention of this sector by other countries while Kosovo was not able to implement any important measure to increase this sector. Therefore this sector must be prioritised by the government as a very important sector of the economy, where by implementing of the subventions and increase of the funds in this sector in the upcoming years, farmers shall be supported stimulating in this way the development of this sector and domestic production. Nevertheless Kosovo's economy and as a result the export sector cannot be sustained completely in extractive industry and in agriculture either. Kosovo must choose to exploit other sources of cooperative advantages and must find other market mechanisms to extend the export activities. As regards to the potential markets we may say that the biggest potential remains EU market. In the recent years we can see an increase of Kosovo businesses oriented to EU markets. Such tendency it is seen in the countries in the region as well. Having in regard the size and absorbing potential of EU, Kosovo shall benefit from the increase of the demand for its products in

EU countries and possible investments which may be happen. However, the importance of regional market must not be minimised having in regard the common factors related to language, culture and history which have important influence in commercial exchange between the countries in Balkan region. Then low transport cost and common participation must be taken into account in the future commercial relationships of Kosovo with countries in region. In this context outside EU and CEFTA, potential and important market shall remain Turkish market.

The influence of the fiscal policy in international exchange

Like other macro-economic indicators also the international exchange speaks the level production forces development of the respective country, expressed through the value and structure of the imported and exported goods. In international trade exchange a crucial role plays taxation. Therefore the taxation is considered one of the instruments of the fiscal policy of great importance which affects the process of international exchange. The influence of the taxation in international exchange depends from the status and objective national economy. Indirect taxes shall mean taxes which have effect in the price of goods and services and in this way they also have effect in international exchange of goods and services through export and import. In this course the taxation has an impact in export and import of the national economy. Taxation impacts in export and import of goods and services stimulating or de-stimulating them through the measures of taxation policy.

Taxation calculated in the price of the goods and services impacts in their increase or decrease in the market. Taxation stimulates export through low taxation rates or realising the exporters from taxation. By application of such measures of taxation policy the national export shall be stimulated. Application of measures of taxation policy as are low tax rate or clearing from taxes stimulates the national production, with a view to cut down prices of the goods and services and such prices be more competitive in the international markets. The taxation has its effect in import of the goods and services having effect as well holding up or delaying the import of goods and services. The government to protect national producers or a certain branch of the economy from the competition undertakes strict measures of fiscal policy respectively increases customs taxes, VAT rate in imports with a view to increase the prices of imported products and services protecting in this way national producers. Kosovo applies a favourable fiscal policy in the context of trade policy. Kosovo is applying a very competitive tax rate comparing to countries in the

region. Besides this the taxation system is favourable for export activities.⁵ There is no VAT applicable or customs tariffs in exports of goods and services. In other words through the fiscal policy is trying to stimulate national production and export but it very necessary to take concrete steps towards the fiscal reform which shall be in function of the stimulation of national production and export. While for the imports are applicable 16% of VAT, Customs tariffs and excise, excluding some of the categories of the goods which are free from the fiscal policy with the view to stimulate national production. For stimulation of the business activities, it is very necessary through fiscal policy measures, imported equipments and raw material to be released from VAT and customs taxes, enabling in this way more favourable conditions for activities of the private sector and national producers.⁶

Conclusions

Kosovo in the period after the conflict started to build an open market economy. Kosovo is devoted to liberalise the trade where the participation in regional mechanisms and worldwide shall facilitate trade was one of the main objectives of policies of the Kosovo's Institutions. In Kosovo's commercial exchange it is evident the negative commercial balance where the import is dominating comparing to export. Even that during this period have been taken important macro-economic steps for renewal of Kosovo's economy, still there are many challenges. There are many reasons for such poor performance in the export sector in Kosovo, therefore one of the factors which should be specified and which has had impact in development of enterprises and in particular export sector are: Kosovo after the conflict has inherited companies and industries almost in total collapse as a result of abductions and destructions, delays in the process of privatisation, unsatisfactory level direct foreign investments as a very important factor in many countries in transition for renewal of economy and in particular export sector. Then informal economy, non-systematic supply with energy and limited road infrastructure remains main factors having impact in economical development of the country. Disproportions in international trade generate macro-economic disproportions with long -term implications in a sustainability and economic growth of Kosovo. Herewith the reduction of these disproportions should be a long –

⁵ Ministry of Trade and Industry, Kosovo's Trade Policy, page 19, Pristine 2009.

⁶ Institute for advanced studies (GAP), Pristine, March 2011,

term priority. Economic policies and in particular fiscal policies must be in focus to exceed this situation and growth production and also to growth of competition capabilities and promotion of export through better and more favourable actions in the future. Therefore, reform of fiscal policy should be oriented in stimulation of national production. In this way by encouraging of national production can be founded conditions to decrease the level of the dependence from the foreign market, a wide assortment of products be offered in the international market as the result of this there will an improved commercial balance.

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